

**Further Education Commissioner
assessment summary**

Lambeth College

October 2016

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Assessment

Background

The London Borough of Lambeth is the second largest inner London Borough with a population of 322,000 (2015 estimate). It has experienced rapid population growth, increasing by over 50,000 in the last 10 years up until 2015. There are five key town centers: Brixton, Clapham and Stockwell, North Lambeth (Waterloo, Vauxhall, Kennington), and Norwood and Streatham.

Lambeth is the 5th most deprived Borough in London. One in five of the borough's residents work in jobs that pay below the London Living Wage. This is reflected by the fact that nearly one in four (24%) young people live in families who receive tax credits. Major regeneration developments and improvements are underway for Waterloo and Vauxhall and the Nine Elms Regeneration project which will drive the transformation of these areas.

Lambeth College has three main campuses in the borough, based in Clapham, Brixton and Vauxhall. Approximately a quarter of the student cohort in any given academic year are 16-18 learners. In addition to this, there is also a significantly growing proportion of 16-18 learners on Apprenticeship programmes, moderate numbers on workplace-training provision for employers and school link programmes which are offered to relatively smaller learner volumes.

The College maintains strong relationships with a range of local partners. For example, it has established partnership working with the boroughs of Lambeth and Southwark to provide education and training to learners unable to access mainstream education for a variety of reasons, through each borough's '**Virtual Schools**' programme. It also has good partnership arrangements with a number of local employers.

Following notification by the Skills Funding Agency (SFA) that there had been a significant deterioration in the finances of Lambeth College, the Minister for Skills and Enterprise decided that the FE Commissioner should assess the position of the College in line with the Government's intervention policy set out in *Rigour and Responsiveness in Skills*.

The FE Commissioner's report is intended to advise the Minister and the Chief Executives of the funding agencies on;

- a) The capacity and capability of the college's leadership and governance to secure a sustained financial recovery within an acceptable timetable
- b) Any actions that should be taken to deliver a sustained financial recovery within an agreed timetable (considering the range of interventions set out in *Rigour and Responsiveness in Skills*) and
- c) How and when progress should be monitored and reviewed taking into account the Agency's regular monitoring arrangements.

Assessment Methodology

The FE Commissioner, supported by two FE Advisers, carried out the assessment during the period 21st to 26th September, including three days on site at the College. The FE Commissioner received in advance extensive briefing information provided by the Skills Funding Agency and the Education Funding Agency, as well as information provided by the college. The Commissioner and his Advisers interviewed the Chair of the Corporation, the Interim Clerk, the Interim Principal, members of the Executive team, managers, staff and students.

The Role, Composition and Operation of the Board

The Corporation Chair is an experienced London based educator with a good working knowledge of FE in London and the local community. She has the experience and expertise in educational management to be able to play a continuing role in the development of the College's immediate plans.

Whilst other Corporation members also have valuable skills and experience to assist the development of the College's curriculum, there has been a shortage of financial, HR and capital development expertise among the membership. Although this has started to be refreshed in recent months, the Chair, Principal and Interim Clerk acknowledge that there is a need for a further review of the skills base of the current Board to ensure that the Corporation has the necessary balance going forward to carry out its duties.

The Corporation has been operating a less than full Carver model ('Carver light'), meeting formally seven times in 2014/15 and eight times in 2015/16 but this has not enabled sufficient scrutiny of finance and resources. We would therefore recommend the establishment of a Finance and Resources Committee to oversee the college's recovery plan and drive forward its capital developments.

The Clerk to the Corporation

An experienced Interim Clerk to the Corporation was appointed in September 2016, and the Chair, and Interim Principal have been swift to ask her to investigate the College's recent financial issues and her draft conclusions have now been formed to present to the full Governing Body. Her report also includes detailed proposals to improve the Corporation's scrutiny and oversight of financial decisions, and we would commend these to the Board for urgent action.

Papers for Board meetings are clear and well-presented and minutes of meetings show a clear audit trail of decision-making and also evidence of challenge and critique of the leadership team from Board members. However, the Board has been too reliant on the information provided by the previous Principal and VP Finance and Business Planning and needs to establish mechanisms to enable them to understand better the 'workings' of the college and the true financial picture.

Given the college's present situation an updated skills/knowledge analysis and the development of a suitable training programme for Board members, particularly around FE and capital funding should be a priority.

The Executive Team

Since the college's difficult financial position was uncovered earlier in the year both the existing FD and Principal have left and an experienced interim team has taken over. There is also now a capable Interim Finance team, who are collectively bringing stability to the college's finances and developing a credible interim financial plan to sustain the College through 2016-17.

Whilst it is clear from its present financial position that the College cannot continue as an independent Corporation in the longer term, it is our view that the Interim management team will be able to manage the current situation and work effectively with Governors to lead the College into an appropriate merger.

The Quality of Provision

The College was inspected in December 2014. Overall effectiveness was judged as requiring improvement (grade 3). Leadership and management and the quality of teaching, learning and assessment were also judged grade 3. Outcomes for learners were judged inadequate (grade 4) with the likelihood that a prolonged period of industrial action at the end of the year had adversely affected performance.

The College believes it has made further overall improvement since inspection. Whilst it recognises and appreciates the distance still to be travelled, it can demonstrate progress in its response to the issues previously underpinning the overall learner experience and outcomes. This improvement was supported by comments in the Ofsted "support and challenge" visit in April 2016, pointing to further steps being taken to support students and improve teaching and learning,

Over the last twelve months the VP Curriculum (appointed May 2015) has introduced new Quality and student support systems, which are starting to change the teaching and learning culture of the College, with recent impacts on learner performance. Changes are being made in curriculum and quality leadership and there is evidence of improvements in success rates on learners' substantial vocational qualifications. Maths and English outcomes, however, have continued to decline, although there are signs that the underlying organisational problems have now been addressed.

Leaders have also worked hard to develop the mind-set of staff to one where individual stretching targets are used to motivate and inspire. The introduction of the Career Ready Standards (noted in the 2016 Ofsted visit) supports the development of learners who are increasingly ready for work and has underpinned an improvement in attendance

Student Numbers

The number of learners enrolled at the college decreased significantly from 2014/15 to 2015/16. Despite a small increase in the proportionality of 16-18 learners, adults remain the large majority of learners and represent the largest provision type at the College. Enrolment for 2016-17 was still in progress at the time of our visit but 16-18 full time numbers were close to target and there has been a substantial increase in Apprentices, albeit from a very low base.

Senior managers have recognised that staffing levels and costs are currently too high and the importance of class sizes in reducing those costs over the longer term. In enrolment this year curriculum managers under the direction of the VP Curriculum have

developed systems for increasing median class sizes from around 14 last years to around 18 in September 2016.

The College's Financial Position

The College has had a poor financial history with underlying deficits in each of the last four years. The College's financial difficulties have stemmed primarily from an ineffective response to reductions in SFA income. The College has taken steps to increase income from other sources and reduce costs in response to these cuts but these have not matched the reduction in the grant funded activity. During this period the College's staff cost: income % has been consistently above sector norms.

Financial Forecasts beyond 2015/2016

The College recovery plan is in draft form but the College believes that there will be no material changes to it. It has been prepared on the basis that the College will merge in August 2017 and therefore no work has been undertaken on the forecast beyond 2016/17. The figures for 2017/18 to 2019/20 represent a continuation of the 2016/17 budget with minor changes

Whilst the College is actively seeking a merger partner and does not wish to pre-empt any future restructuring the current level of staffing is unsustainable. The College should therefore identify the savings that would bring the College into surplus and implement those actions not requiring a merger in year. This needs to be urgently addressed.

Capital Developments

The College is undertaking a major capital scheme at its Vauxhall site. The scheme is funded by an asset sale and the LEP. Once the Vauxhall scheme is complete the College would be able to dispose of surplus land at Clapham Common which would release significant funds. The College should however, put in place contingency plans that could be actioned if any of the major risks identified with the capital scheme were to be realised.

Financial Oversight by the Board

The Clerk to the Corporation undertook a full internal investigation in September 2016 to identify the causes of the recent financial crisis, and make recommendations.

The report identified that over the period, there was not a sufficient number of governors with financial qualifications and expertise on the Board to enable the financial situation to be scrutinised effectively. Furthermore, a series of reviews seemed to be giving the College a clean bill of financial health. The PFA audit in August 2015 re-inspected financial controls and the Financial Notice of Concern was then lifted. No alarm bells about financial controls and systems either were ringing from external auditors or (before March 2016), the internal auditors.

The Report concluded that the decline in the financial position of the College was a result of systemic failure. Although this was primarily a failure of management, the governors were not able to exercise the oversight and challenge that might have enabled the true position to surface earlier. The root cause for both management and governors was the reliance on and trust placed in the VP Finance and Business Planning who oversaw financial controls that were inadequate.

Budget-setting Arrangements

The 2015/16 budget setting process was poor. The curriculum plan was prepared by the Finance Department and not agreed with the curriculum areas. Budget holders did not agree their budgets and there was therefore, a lack of rigour in ensuring the budgets were deliverable. Income, pay and non-pay assumptions to deliver the budget were overly optimistic. No cash flow forecast was produced and its absence should not have been accepted by Governors. A cash flow forecast would have enabled discrepancies between cash and income and expenditure to have been highlighted earlier in the year.

Whilst there is evidence of Governors challenge in respect of the budget these were not followed through and assurances were accepted without sufficient evidence. Governors have recognised that overview and monitoring of the budget and management accounts has therefore been largely ineffective.

The new Leadership Team for the 2016/17 budget have introduced a process of proper curriculum planning and examination of other income and costs to produce a budget which involves budget holders more extensively. More needs to be done, but in our view the College is heading in the right direction.

Financial Reporting

The Financial Reporting during 2015/16 was poor. Budget holders did not receive regular monitoring reports and the reports they did receive were straight off the financial ledgers and were not easily understood. The College has updated its financial system and regular reporting to budget holders will commence in 2016/17.

A fundamental weakness in reports to the Senior Management Team and Governors was that income was accrued to budget during the year and therefore variance in actual and budgeted activity was missed. A monthly cash flow comparing actual cash to budget was not part of the management accounts and therefore the increasing discrepancy between budgeted and actual cash was missed. This has now been addressed and the level and quality of resources now in the finance team is appropriate to meet the college's needs.

Audit

The 2015/16 Internal Audit is not finalised and the Auditors have been requested to undertake additional work on Fundamental Financial Controls. The Audit was planned to take place in the first term but was postponed until the second term. This was unfortunate as it may have identified the financial control weaknesses sooner.

The specific wording of the auditor's annual report relating to the two years' work varies as the Audit Code of Practice has changed, but the overall conclusion in each case has been that the College has an adequate and effective framework for risk management, internal control and governance. It is difficult to see how this can be justified in the light of the college's position.

The College has also received unqualified audit reports for the three years we examined, i.e. 2012/13, 2013/14 and 2014/15. The audit report for 2014/15 includes an emphasis of matter in respect of the College's liquidity position but the Auditors opinion was not qualified with regards to this.

Conclusions

Lambeth College has experienced a financial crisis over the last 12 months, which means the College no longer has a sustainable future as an independent college. Without continued SFA support the College would become insolvent, and this report concludes that the current Corporation seeks a merger with a strong partner.

The reasons for financial failure have been investigated by the Corporation and a detailed report has been prepared by the newly appointed Interim Clerk, which sets out the causes of the failure and also makes a number of recommendations for immediate action. That report clearly shows that the original budget for 2015/16, which was approved by governors in June 2015 had been prepared by the VP Finance and Business Planning and was not based on a realistic or accurate curriculum plan.

The College Leadership Group (CLG) did receive updates on the budget, but there is no evidence of significant input from members of the CLG to what was presented and little documentation was presented to support the figures being brought forward.

Any challenge to the position of the College's finances as presented by the lead financial manager was rendered ineffective as the data being used was not credible. Furthermore, the same underlying financial data was being used and relied on by external bodies who were not flagging concerns to the College. Given the size of the underlying deficits over a sustained period, however, the SFA should have escalated the situation sooner.

Recommendations

1. As a result of financial issues in 2015-16 the College finances are no longer sustainable and the College should urgently seek a merger partner with a view to enabling the work of the College to continue beyond August 2017.
2. The Chair and Corporation have already started to take steps to refresh the membership of the Board with new members bringing greater financial expertise. The scope and complexity of current staffing and capital development mean that they should also consider whether the Board has sufficient knowledge and skills in HR and capital development. A skills analysis of Governors should be completed to determine whether this is necessary and a representative of the SFA invited to join the board.
3. In order to meet their fiduciary responsibilities and ensure effective Governance oversight of management, it would be wise to consider ways in which Governors could ensure that they had sufficient awareness of operational matters by completing occasional 'Learning walks' in support areas such as Finance and HR. The development of a suitable training programme for Board members, particularly around FE and capital funding should also be considered.
4. The Corporation should establish a Finance sub-committee to allow greater scrutiny of the college's financial performance.
5. Improvements have been made to the management accounts but these need to be further developed to include debtors, capital and key indicators related to activity.
6. Given the need to improve the College's short-term financial position, and given the high staff costs: income ratio the College should re-visit its decision to operate a deficit budget in 2016-17, and reduce staffing costs where possible in year.
7. As a Careers College, Lambeth needs to redouble its efforts to ensure that Functional skills, Apprenticeships and GCSE Maths and English are seen by all staff and students as key to their success.
8. An FE adviser should continue to monitor and review progress on a regular basis, with a stocktake assessment by the FE Commissioner in January 2017.

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